

LAKE REGION ARTS COUNCIL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

**LAKE REGION ARTS COUNCIL
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Region Arts Council
Fergus Falls, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Lake Region Arts Council (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Region Arts Council, as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Lake Region Arts Council, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt Lake Region Arts Council's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lake Region Arts Council's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lake Region Arts Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 20, 2022

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 212,653	\$ 326,460
Prepaid Expenses	1,734	887
Total Current Assets	<u>214,387</u>	<u>327,347</u>
PROPERTY AND EQUIPMENT		
Office Equipment	74,246	74,246
Less: Accumulated Depreciation	<u>72,254</u>	<u>70,575</u>
Net Property and Equipment	<u>1,992</u>	<u>3,671</u>
Total Assets	<u><u>\$ 216,379</u></u>	<u><u>\$ 331,018</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants Payable	\$ 83,491	96,115
Accounts Payable	5,720	15,257
Deferred Revenue	65,071	161,437
Accrued Liabilities	2,871	-
Note Payable	<u>-</u>	<u>35,125</u>
Total Current Liabilities	<u>157,153</u>	<u>307,934</u>
Total Liabilities	157,153	307,934
NET ASSETS		
Net Assets Without Donor Restrictions	<u>59,226</u>	<u>23,084</u>
Total Net Assets	<u>59,226</u>	<u>23,084</u>
Total Liabilities and Net Assets	<u><u>\$ 216,379</u></u>	<u><u>\$ 331,018</u></u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022			2021		
	Without Restrictions	With Restrictions	Total	Without Restrictions	With Restrictions	Total
REVENUE						
Minnesota State Arts Board Grants:						
Arts and Cultural Heritage Funds	\$ 782,846	\$ -	\$ 782,846	\$ 524,068	\$ -	\$ 524,068
McKnight Foundation	58,198	-	58,198	61,963	-	61,963
Interest Income	20	-	20	21	-	21
Other Income	39,404	-	39,404	47,304	-	47,304
Total Revenue	880,468	-	880,468	633,356	-	633,356
EXPENSES						
Program Services:						
General Program	173,675	-	173,675	136,787	-	136,787
McKnight Foundation	57,055	-	57,055	62,941	-	62,941
Arts and Cultural Heritage	590,403	-	590,403	434,717	-	434,717
Total Program Services	821,133	-	821,133	634,445	-	634,445
Management and General	23,193	-	23,193	25,318	-	25,318
Total Expenses	844,326	-	844,326	659,763	-	659,763
CHANGE IN NET ASSETS	36,142	-	36,142	(26,407)	-	(26,407)
Net Assets - Beginning of Year	23,084	-	23,084	49,491	-	49,491
NET ASSETS - END OF YEAR	<u>\$ 59,226</u>	<u>\$ -</u>	<u>\$ 59,226</u>	<u>\$ 23,084</u>	<u>\$ -</u>	<u>\$ 23,084</u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022					2021				
	Programs					Programs				
	General Program	McKnight Foundation	Arts and Cultural Heritage	Management and General	Total	General Program	McKnight Foundation	Arts and Cultural Heritage	Management and General	Total
Salaries	\$ 32,151	\$ 9,000	\$ 135,307	\$ 3,925	\$ 180,383	\$ 27,797	\$ 7,857	\$ 118,293	\$ 3,774	\$ 157,721
Payroll Taxes	2,574	505	10,128	296	13,503	2,187	419	8,668	285	11,559
Employee Benefits	3,178	800	11,939	4	15,921	3,285	828	13,062	929	18,104
Grants and Awards	130,073	9,360	309,516	-	448,949	98,930	16,750	197,050	-	312,730
Gallery Expense	657	3,854	6,087	-	10,598	-	789	-	-	789
Other Program	-	16,600	24,233	-	40,833	226	12,504	40,253	-	52,983
Memberships	-	103	1,552	414	2,069	-	90	1,356	362	1,808
Workshops	-	357	1,684	-	2,041	-	-	-	-	-
Travel	485	603	4,009	40	5,137	-	-	268	-	268
Newsletter and Website	824	412	44,138	824	46,198	848	425	16,683	848	18,804
Postage	103	57	769	103	1,032	104	52	778	104	1,038
Contract Services	442	-	2,332	13,354	16,128	434	-	15,102	13,674	29,210
Office Rent	1,860	11,130	29,850	1,860	44,700	1,860	21,932	13,950	1,860	39,602
Parking	9	5	68	9	91	36	18	135	36	225
Office Expenses	776	3,124	2,026	255	6,181	564	173	2,643	346	3,726
Utilities	79	439	592	79	1,189	58	396	436	58	948
Telephone	219	107	1,698	234	2,258	250	125	1,876	250	2,501
Insurance	-	96	1,437	383	1,916	-	88	1,321	352	1,761
Repairs and Maintenance	245	108	1,738	245	2,336	208	100	1,459	208	1,975
Miscellaneous	-	-	-	1,184	1,184	-	-	-	2,232	2,232
Depreciation	-	395	1,300	(16)	1,679	-	395	1,384	-	1,779
Total Expenses	\$ 173,675	\$ 57,055	\$ 590,403	\$ 23,193	\$ 844,326	\$ 136,787	\$ 62,941	\$ 434,717	\$ 25,318	\$ 659,763

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 36,142	\$ (26,407)
Adjustments to Reconcile to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	1,679	1,779
PPP Loan Forgiveness	(35,125)	(35,145)
Increase (Decrease) in Assets:		
Accounts Receivable	-	2,160
Prepaid Expenses	(847)	(887)
(Increase) Decrease in Liabilities:		
Grants Payable	(12,624)	16,075
Accounts Payable	(9,537)	15,066
Accrued Liabilities	2,871	-
Deferred Revenue	(96,366)	130,576
Net Cash Provided (Used) by Operating Activities	<u>(113,807)</u>	<u>103,217</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on Note Payable	<u>-</u>	<u>35,125</u>
Net Cash Provided by Financing Activities	<u>-</u>	<u>35,125</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(113,807)	138,342
Cash and Restricted Cash - Beginning of Year	<u>326,460</u>	<u>188,118</u>
CASH AND RESTRICTED CASH - END OF YEAR	<u><u>\$ 212,653</u></u>	<u><u>\$ 326,460</u></u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Status

Lake Region Arts Council (the Organization) is a nonprofit corporation organized under the laws of the state of Minnesota. It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is not a private foundation within the meaning of Section 509(a) of the IRC. The Organization was formed to provide funding for artistic endeavors through a re-granting process.

Funding of the Organization's activities is from three major sources: the Minnesota State Legislature appropriation, the Minnesota Arts and Cultural Heritage Fund, and the McKnight Foundation. Continuing support from the Minnesota State Legislature and the McKnight Foundation is on a year-by-year basis.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment is stated at cost, if purchased or at fair value at the date of the gift, if donated, less accumulated depreciation. Depreciation is determined on the straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. The Organization capitalizes all expenditures of property and equipment with a useful life of greater than one year and a unit cost of more than \$5,000.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Total unearned revenue from conditional grants were \$65,071 and \$161,437 for the years ended June 30, 2022 and 2021, respectively.

Income Taxes

The Organization follows FASB ASC Topic 740, *Uncertainty in Income Taxes*. Lake Region Arts Council is recognized by the Internal Revenue Service (IRS) as a nonprofit organization under IRC Section 501(c)(3). Due to the nonprofit nature and provision of Lake Region Arts Council, all income and expenses attributable to the mission of Lake Region Arts Council are tax-exempt and accordingly no provision or liability for income taxes has been made in the financial statements and contributions to the Organization are tax deductible to donors as allowed by IRS regulations. However, the Organization is required to pay state and federal income taxes on unrelated business income. If the Organization were to engage in any activities that resulted in unrelated business income, a tax would be assessed on that activity. Lake Region Arts Council is open and subject to examination generally for three years after the filing date.

Advertising

Advertising costs are expensed when incurred.

Donated Materials and Services

Donated materials and equipment are reflected as in-kind contributions at their estimated value at the date of receipt. Donated services are recognized to the extent that such services meet specific criteria with respect to creating or enhancing nonfinancial assets or services which require specialized skills. There were no donated materials or services received in the years ended June 30, 2022 and 2021.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or support function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, occupancy, and office expenses, which are allocated on a square footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Cash and Cash Equivalents

Cash and cash equivalents include checking and savings accounts for purposes of the statements of cash flows.

Grants Payable

Lake Region Arts Council awards grants to qualifying organizations and individuals based on an evaluation process carried out by the governing board. In most cases, a portion of the amount awarded is withheld until the project being funded is completed. At June 30, 2022 and 2021, a total of \$83,491, and \$96,115, respectively, has been awarded but not yet remitted to grantees. This amount is expected to be paid during the next fiscal year.

Subsequent Events

Management has evaluated subsequent events through September 20, 2022, the date on which the financial statements were available to be issued.

NOTE 2 PAYCHECK PROTECTION PROGRAM LOAN

On May 4, 2020, the Organization received a loan from Security State Bank of Fergus Falls totaling \$35,145 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration (SBA). Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted by the SBA to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts are subject to forgiveness based on compliance with program requirements and approval by the SBA.

On January 21, 2021, the Organization received a second draw PPP loan in the amount of \$35,125 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Payroll Protection Program as described earlier. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 2 PAYCHECK PROTECTION PROGRAM LOAN (CONTINUED)

The Organization is following ASC 470, Debt, to account for the initial receipts related to the PPP Loan. On October 9, 2020, the SBA processed the Organization's PPP Loan forgiveness applications for the first draw PPP Loans, and notified Security State Bank on Little Falls the PPP Loans qualified for full forgiveness. Loan proceeds were received by the bank from the SBA on this date. Therefore, the Organization was legally released from the debts and the loan forgiveness has been recorded as PPP Loan Forgiveness, which is included in revenue during the year ended June 30, 2021.

On September 7, 2021, the SBA processed the Organization's PPP Loan forgiveness applications for the second draw of PPP Loans, and notified Security State Bank on Little Falls the PPP Loans qualified for full forgiveness. Loan proceeds were received by the bank from the SBA on this date, which is included in revenue during the year ended June 30, 2022.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Organization's financial position.

NOTE 3 CONCENTRATIONS

The Organization has concentrations of grant revenues from the Minnesota State Arts Board via the state of Minnesota general fund and the Minnesota Legacy Amendment fund. This funding is subject to renewal on an annual basis.

The Organization maintains cash balances that may, at times, exceed the \$250,000 covered by the Federal Deposit Insurance Corporation.

NOTE 4 RENTAL LEASE COMMITMENTS

The Organization leases office space under a lease agreement that expires in October 2023. Monthly lease payments of \$2,875 are to be made until the expiration of the lease. The Organization also has equipment leases with varying terms.

Lease expense totaled \$44,700 and \$39,602 during the years ended June 30, 2022 and 2021, respectively.

The following is a schedule of future minimum lease payments required at June 30:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 36,335
2024	13,335
2025	121
Total	<u>\$ 49,791</u>

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 5 RETIREMENT PLAN

Lake Region Arts Council provides employees a SEP retirement plan which is available to all permanent employees of the Organization. The plan provides a 7% contribution equal to employees' yearly salary. Contributions for the years ended June 30, 2022 and 2021 were \$11,607 and \$11,072, respectively.

NOTE 6 AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors liquidity to meet its operating needs and other commitments. The Organization holds liquid assets totaling \$212,653 and \$326,460 as of June 30, 2022 and 2021, respectively, which are readily available within one year of statement of financial position date to meet general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget, which is approved by the Organization's board of directors, and anticipates collecting sufficient revenue to cover general expenditures.